

Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended December 31, 2012

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs, and Budget 2012 Implementation

1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates for 2012-13.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2012-13 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

As part of the parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 proceeding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments have been established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of December 31, 2012, NSERC's total authorities available for 2012-13 amount to \$1.079 billion. The changes in total available authorities are the result of prior federal budget announcements and Treasury Board decisions that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. In addition, NSERC is authorized to transfer up to 5% of its unused operating budget (vote 75) from the previous fiscal year (representing a \$2.1 million carry-forward from 2011-12 to 2012-13). This operating budget carry-forward process is in place to provide federal departments and agencies with the flexibility to manage cash flow appropriately and to address schedule variances in operating projects. To date, for 2012-13, the cumulative resource level adjustments resulted in a decrease in total available authorities of \$9.5 million (0.9%) from the previous fiscal year. This amount includes a \$13.1 million decrease in NSERC's grants and scholarships programs (vote 80), and the balance of \$3.6 million represents an increase in operating expenditures to support the delivery of programs.

In this quarter, total available authorities incorporate the elements of the 2012-13 Supplementary Estimates (B) (SEB). The SEB is the second, and the most significant, of three opportunities to approve changes in NSERC's authority levels for the current fiscal year (other than transfers from Treasury Board votes). The vast majority of these changed elements are the result of previous federal budget announcements, while the balance relate to technical adjustments from Treasury Board and transfers between departments and agencies for specific initiatives. The future and ongoing impacts of SEB elements will be included in NSERC's 2013-14 Main Estimates for the next fiscal year. The 2011-12 SEB elements were also included in the third quarter of last fiscal year. Some of these 2011-12 SEB elements, that were introducing funding for more than one fiscal year, were already factored into the 2012-13 Main Estimates. For that reason, they were included in the available authorities as of the first quarter of 2012-13. For these ongoing elements, only the net difference in the level of funding between the two fiscal years is presented in the explanation below. The net changes, amounting to the \$9.5 million decrease in total available authorities between the current and the previous fiscal year, are comprised of the following elements:

- an increase of **\$14.0 million** to the NSERC budget to support outstanding research in the natural sciences and engineering. Funds will be allocated to the Strategy for Partnerships and Innovation Program (*Budget 2012*);

- an increase of **\$7.0 million** to support excellence in climate change and atmospheric research at Canadian postsecondary institutions (*Budget 2011*);
- an increase of **\$3.0 million** to expand the College and Community Innovation Program. Funds will be allocated to two new initiatives: Industrial Research Chairs for Colleges Grants and College University Idea to Innovation Grants (*Budget 2011*);
- an increase of **\$3.0 million** to select a Canada-India Research Centre of Excellence (CIRCE) (*Budget 2011*);
- an increase of **\$2.8 million** in the operating budget due to an allocation from Treasury Board (vote 30) for the reimbursement of eligible payroll expenditures, such as severance pay and parental benefits;
- an increase of **\$1.0 million** for the College and Community Innovation program (Technology Access Centres) to enable Canadian colleges to increase their capacity to work with local companies, particularly small and medium-sized enterprises (*Budget 2012*);
- an increase of **\$0.4 million** to the Canada Excellence Research Chairs program to attract and retain the world's most accomplished and promising minds (*Budget 2008*);
- a decrease of **\$16.5 million** in the Centres of Excellence for Commercialization and Research Program to advance research and facilitate the commercialization of technologies, products and services within the four priority areas identified in the federal science and technology (S&T) strategy (*Budget 2007*);
- a decrease of **\$15.0 million** as part of the government's efforts to return to a balanced budget (*Budget 2012*);
- a decrease of **\$7.0 million** related to the Canada Graduate Scholarships Program due to the phase out of the Economic Action Plan (*Budget 2009*);
- a decrease of **\$2.0 million** in the Networks of Centres of Excellence Program due to the sunset of funding (*Budget 2004*); and
- a decrease of **\$0.2 million** in transfers to SSHRC and CIHR to cover ring-fenced initiatives that fall under their mandate.

Authorities Used in the Third Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2012-13 Main Estimates and the Supplementary Estimates (A), for which full supply was released by Parliament on June 29, 2012, the carry-forward of operating funds from 2011-12 to 2012-13 that was approved on September 28, 2012, the reimbursement of eligible payroll expenditures and the Supplementary Estimates (B) that was approved on December 14, 2012.

Total authorities used during the third quarter of 2012-13 amounted to \$290 million (26.9% of the total available authorities: 27.2% of total authorities used for grants and scholarships programs and 21.4% for operating expenditures and employee benefits). This represents a \$6 million decrease from the same quarter of the previous fiscal year (\$6.3 million net decrease in authorities used for grants and scholarships expenditures and \$0.3 million increase in authorities used for operating and employee benefits plan expenditures). The decrease in grants and scholarships expenditures is the result of the phase out of the Economic Action Plan and the timing difference on payments due to the planned decrease spending in the Strategic Partnerships Programs and the reallocation of funding to Industry Driven Collaborative Research and Development Programs.

The increase in authorities used for operating expenditures and the employee benefits plan over the third quarter of the previous year can be attributed to an increase in personnel expenditures due to the annual salary increase.

Grants and scholarships payments vary between periods due to the cycle and results of the peer-reviewed program competitions, and the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to the employee benefits plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, occur in direct conjunction with the program cycle and are demand driven. As a large proportion of the program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.

Authorities Used Year-to-Date

Total authorities used cumulatively during the first nine months of the 2012-13 fiscal year represented \$815.6 million (75.6% of the available authorities). This represents \$1.9 million less than the previous fiscal year, of which \$5 million is attributed to grants and scholarships expenditures. The main factor for this overall decrease is the phase out of the Economic Action Plan (as outlined in the Available Authorities section). The proportion of the cumulative grants and scholarships authorities used in the fiscal year has been the same as the previous fiscal year (75.6% in 2011-12). The cumulative authorities used in this fiscal year for operating expenditures and employee benefits plan increased by \$3 million over the last fiscal year. NSERC spent 66.2% of its operating authorities and employee benefits plan in the current fiscal year, compared to 64.8% in 2011-12. The main reason for this increase is the cash-out of some benefits by NSERC employees as per the approved Terms and Conditions of Employment.

Statement of Departmental Budgetary Expenditures by Standard Objects

Variation in Amounts Available for Use in 2012-13

As described in the Available Authorities section, NSERC's Parliamentary authorities have been decreased by \$9.5 million for 2012-13 to date over the previous year; the majority of which is attributed to the transfer payment (grants and scholarships) programs (\$13.1 million) and a balance of \$3.6 million, increasing the net available authorities for operating expenditures and employee benefits plan to support the delivery of programs.

The implementation of the government's efforts to return to a balanced budget had no significant impact on the overall results of the third quarter but could explain the variance in expenditures in terms of standard objects. The savings that resulted from the changes will affect the results of the quarters to come.

Transfer Payments Expenditures (Grants and Scholarships)

Third Quarter Grants and Scholarships Expenditures

Transfer payments represent approximately 94.9% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the third quarter of 2012-13, NSERC's transfer payment expenditures decreased by \$6.3 million compared to the same quarter of the previous fiscal year. The main factors for the decrease over the previous year is the phase out of the Economic Action Plan and the payment timing difference generated by the planned decrease in Strategic Program spending. As part of the Strategy for Partnerships and Innovation, NSERC reallocated funds from Strategic Partnerships Programs to Industry Driven Collaborative Research Development Programs. These programs do not follow the same payment cycle and that resulted in a timing difference on payment. This timing difference between quarters will be offset by the end of the fiscal year.

Year to Date Grants and Scholarships Expenditures

At the end of the third quarter, NSERC spent \$5 million less than what was spent at the same point in the previous fiscal year. The main factors for the decrease over the prior year include: a decrease of \$7.3 million related to the Canada Graduate Scholarships Program mainly due to the phase out of the Economic Action Plan; a decrease of \$3 million in the Major Resources Support Program, resulting from a moratorium that was placed on the program; and a planned decrease of \$6.5 million in Strategic Partnerships Program. These decreasing factors were compensated by an increase of \$4.5 million in the Automobile Partnership Canada initiative resulting from an increase in the number of awards issued in each of the years, and an increase of \$7.3 million in the Industry Driven Collaborative Research Programs and Engage part of the Strategy for Partnerships and Innovation for which NSERC received funding from Budget 2011 and 2012.

Third Quarter and Year to Date Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (71.4% of available operating authorities or expenditures for 2012-13). The personnel expenditures for the first nine months of the fiscal year of 2012-13 increased by \$3.8 million (14.3%), mostly in the second quarter (\$3 million) in comparison with the same period of the previous year. This increase is the result of changes in the NSERC Terms and Conditions of

Employment. To reduce the government's financial liability and to align with the greater Public Service and the Canadian Labour Market, where severance pay in the case of voluntary departures is not common practice, severance benefits for retirement and resignation ceased to accumulate, and accumulated severance benefits were paid out to NSERC employees. Treasury Board Secretariat has compensated NSERC for these expenditures and the NSERC operating authorities have increased accordingly (as mentioned in the authorities available section). The increase can also be explained by the annual salary increase.

Third Quarter and Year to Date Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the latter quarter of the fiscal year. For the first nine months of the year, the non-personnel operating expenditures decreased over the same period of the previous year by \$708,000 (10.1%), with the majority of the effect residing in the second quarter (\$506,000). This decrease is mainly in professional and special services (\$500,000), and transportation and communications (\$485,000); while the acquisition of machinery and equipment increased by (\$329,000). All of these changes are mainly due to the timing of purchases that occurred in the comparative period of the previous fiscal year. Last fiscal year, purchases were made during the first half of the fiscal year. Also, some changes in operations, such as the use of teleconferencing which is in line with Government-wide efficiency initiatives, explains the decrease in certain expenditures such as travel, as well as the increase in other expenditures such as acquisition of machinery and equipment as NSERC changes its business delivery model in an effort to generate more efficiencies. The decrease in travel expenditures can also be explained by fewer strategic panel meetings, a reduction of on-site and university visits, and an increase in the number of applications, all of which affect the need for NSERC employees to travel for regional outreach.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the council's most recent corporate risk identification exercise, risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grants and scholarships programs) and its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of a global enterprise; therefore participation in our programs is not only influenced by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relations strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled the research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process was launched by NSERC in 2012. This process will serve as the

foundation for NSERC to plan all aspects of its business in an integrated manner in order to align priorities and resources accordingly.

Internal Risk Factors

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC has developed a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC's financial restraints are challenging their ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order to adapt more efficiently to internal changes and to improve external client service.

Federal Budget 2010 and 2011 announced operating budget constraint measures and froze the operating budgets of federal departments and agencies at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Federal Budget 2012 announced the Government of Canada's efforts to return to a balanced budget. The resulting budgetary pressures include the self-financing of annual salary increases requiring internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications within limited operational envelopes and inflationary costs on operating expenditures. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, NSERC has achieved the reduction of its operating pressures through economies of scale achieved by shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada (SSHRC), corporate-wide prioritization and reduction of activities, internal reallocations and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). An integrated planning process to address restraint measures and funding cuts was developed to enhance NSERC's resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

There were a number of important changes in comparison with the previous fiscal year that relate to operations, personnel and programs. These include the impacts caused by NSERC's increased available authorities, which resulted in expanding dimensions of the Strategy for Partnerships and Innovation program. Another prevalent influence involved the continuing implementation of government-wide operating budget constraint measures and the government's efforts to return to a balanced budget, for which details are described in the section below. The federal Budget 2012, tabled in March, included funding announcements with additional program dimensions that are being implemented by NSERC, following Treasury Board and Parliament approvals, over the course of the fiscal year.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office.

In the first year of implementation, NSERC will achieve savings of approximately \$15 million. The Government of Canada reinvested \$15 million this year in support of the Strategy for Partnerships and Innovation, making the net impact on NSERC's overall budget neutral for 2012-13. Net Savings will increase by \$15 million in 2013-14 for a total of \$30 million in ongoing savings.

NSERC examined all of its activities and investments, with the intention of streamlining operations and ensuring maximum efficiencies.

In realizing operating budget savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning and training will further help NSERC meet its goals.

Expenditures in the first three quarters of 2012-13 are slightly lower than in the same period of the previous fiscal year. The difference between the two fiscal years does not yet reflect the savings measures of Budget 2012, which will be demonstrated later in the fiscal year and over the course of the next fiscal year.

There was no incremental funding provided to NSERC to complete the above work that is underway. There are no financial risks or uncertainties related to these savings.

Approved by:

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February 25, 2013